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SECURITIES

Washington, D.C. 20549

MISSION

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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER

8-47114

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING

01/01/03
MM/DD/YY

AND ENDING

12/31/03
MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: QUIET LIGHT SECURITIES, LLC

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

141 W. JACKSON BLVD., SUITE 2020A

(No. and Street)

CHICAGO

ILLINOIS

60604

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

PAUL J. DEVITT

312-431-0670

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PETER SHANNON AND COMPANY

(Name - if individual, state last, first, middle name)

2 SALT CREEK LANE HINSDALE IL

60521

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESS

JUN 14 2004


FOR OFFICIAL USE ONLY

THOMSON
FINANCIAL

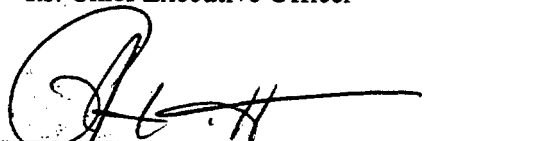
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION
REGARDING ACCURACY AND COMPLETENESS
OF FINANCIAL STATEMENTS OF QUIET LIGHT SECURITIES
AS OF AND
FOR THE YEAR ENDING DECEMBER 31, 2003

To the best of my knowledge and belief, the information contained herein is accurate and complete.



Quiet Light Securities, LLC
By: John C. Halston
Its: Chief Executive Officer



Quiet Light Securities, LLC
By: Paul J. Devitt
Its: Chief Financial Officer

PETER SHANNON & CO.

CERTIFIED PUBLIC ACCOUNTANTS

2 Salt Creek Lane, Suite 110 • Hinsdale, Illinois 60521

February 4, 2004

Quiet Light Securities, LLC

141 West Jackson Boulevard, Suite 2020A
Chicago, Illinois 60604

Report on Internal Control Required by SEC Rule 17a-5

Gentlemen:

In planning and performing our audits of the financial statements and supplemental schedule of Quiet Light Securities, LLC (the Company), for the years ended December 31, 2003 and 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Report on Internal Control Required by SEC Rule 17a-5 (Continued)

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Peter Shannon & Co.

Certified Public Accountants

PETER SHANNON & CO.

CERTIFIED PUBLIC ACCOUNTANTS

2 Salt Creek Lane, Suite 110 • Hinsdale, Illinois 60521

February 4, 2004

Quiet Light Securities, LLC

141 West Jackson Boulevard, Suite 2020A

Chicago, Illinois 60604

Report on Internal Control Required by CFTC Regulation 1.16

Gentlemen:

In planning and performing our audits of the financial statements of Quiet Light Securities, LLC (the Company) for the years ended December 31, 2003 and 2002, we considered its internal control, including control activities for safeguarding customer and firm assets, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16 in making the following:

1. The periodic computations of minimum financial requirements pursuant to Regulation 1.17
2. The daily computations of the segregation requirements of Section 4d(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations
3. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the CFTC

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the CFTC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Regulation 1.16 lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Report on Internal Control Required by CFTC Regulation 1.16 (Continued)

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding customer and firm assets, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the CFTC to be adequate for its purposes in accordance with the Commodity Exchange Act and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate to meet the CFTC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the CFTC, and other regulatory agencies that rely on Regulation 1.16 of the CFTC, and is not intended to be and should not be used by anyone other than these specified parties.

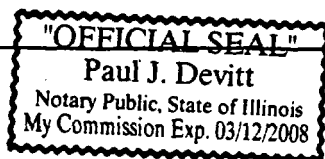
Peter Shannon & Co.

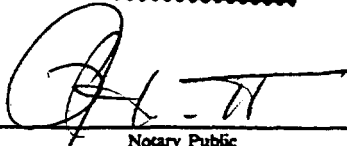
Certified Public Accountants

OATH OR AFFIRMATION

I, JOHN C. HALSTON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of QUIET LIGHT SECURITIES, as of DECEMBER 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE




Notary Public


Signature

CHIEF EXECUTIVE OFFICER
Title

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

QUIET LIGHT SECURITIES, LLC

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003 AND 2002

PETER SHANNON & CO.

CERTIFIED PUBLIC ACCOUNTANTS

2 Salt Creek Lane, Suite 110 • Hinsdale, Illinois 60521

February 4, 2004

Quiet Light Securities, LLC

141 West Jackson Boulevard, Suite 2020A
Chicago, Illinois 60604

Independent Auditors' Report

Gentlemen:

We have audited the accompanying statements of financial condition of Quiet Light Securities, LLC as of December 31, 2003 and 2002 and the related statements of income, changes in sole proprietor's equity and accumulated other comprehensive income, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quiet Light Securities, LLC as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed information included in the report (shown on page fourteen) is presented for purposes of additional analysis and is not a required part of the basic financial statements but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peter Shannon & Co.

Certified Public Accountants

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Exhibit I**Quiet Light Securities, LLC
Statements of Financial Condition
December 31, 2003 and 2002**

Assets	2003	2002
<u>Current Assets</u>		
Cash in Bank	\$ 118,116	\$ 185,231
Receivable from Clearing Organizations (Note 4)	5,282,777	56,675,937
Securities Owned (Marketable, at Market Value) (Note 5)	124,040,442	95,098,303
Prepaid Expenses and Miscellaneous	41,502	48,308
<u>Property and Equipment (Note 6)</u> (Net of Accumulated Depreciation of \$202,944 in 2003 and \$87,865 in 2002)	37,776	61,393
<u>Other Assets</u>		
Loans Receivable (Note 8)	849,982	1,050,669
Chicago Mercantile Exchange Deposit	511,013	505,061
Insors Integrated Communications, Inc. Warrants (Note 7)	2,000	2,000
ABN AMRO Sage Corporation Preferred Stock (Note 7)	50,000	
Exchange Memberships and Investments (Note 9)	4,625,799	2,696,500
Total Assets	\$ 135,559,407	\$ 156,323,402
 Liabilities and Sole Proprietor's Equity		
<u>Current Liabilities</u>		
Accounts Payable	\$ 12,074	\$ 60,402
Securities Sold, Not Yet Purchased, at Market Value (Note 5)	114,291,049	131,240,296
Payable to Clearing Organizations (Note 4)		5,234,324
Accrued Expenses	728,401	1,072,605
Total Liabilities	115,031,524	137,607,627
<u>Sole Proprietor's Equity</u>		
Proprietor's Equity	18,165,139	17,907,080
Accumulated Other Comprehensive Income (Note 17)	2,362,744	808,695
Total Sole Proprietor's Equity	20,527,883	18,715,775
Total Liabilities and Sole Proprietor's Equity	\$ 135,559,407	\$ 156,323,402

The accompanying notes to the financial statements are an integral part of this statement.

Exhibit II

Quiet Light Securities, LLC
Statements of Income
Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>Revenues</u>		
Net Trading Revenue	\$ 3,844,014	\$ 4,956,219
Other Income	590,613	614,760
Total Revenues	<u>4,434,627</u>	<u>5,570,979</u>
<u>Expenses</u>		
Compensation and Benefits	2,749,786	4,154,903
Other Expense	315,612	306,391
Total Expenses	<u>3,065,398</u>	<u>4,461,294</u>
Net Income	<u>\$ 1,369,229</u>	<u>\$ 1,109,685</u>

The accompanying notes to the financial statements are an integral part of this statement.

Exhibit III

Quiet Light Securities, LLC
Statements of Changes in Sole Proprietor's Equity and
Accumulated Other Comprehensive Income
Years Ended December 31, 2003 and 2002

	<u>2003</u>		<u>2002</u>	
	<u>Sole Proprietor's Equity</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Sole Proprietor's Equity</u>	<u>Accumulated Other Comprehensive Income</u>
<u>Beginning of Year</u>	\$ 17,907,080	\$ 808,695	\$ 22,595,793	\$
Net Income	1,369,229		1,109,685	
Proprietor's Contributions	333,600		1,203,662	
Proprietor's Distributions	(1,444,770)		(7,002,060)	
Other Comprehensive Income (Note 17)		1,554,049		808,695
<u>End of Year</u>	<u>\$ 18,165,139</u>	<u>\$ 2,362,744</u>	<u>\$ 17,907,080</u>	<u>\$ 808,695</u>

The accompanying notes to the financial statements are an integral part of this statement.

Exhibit IV

Quiet Light Securities, LLC
Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>Operating Activities</u>		
Net Income	\$ 1,369,229	\$ 1,109,685
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities		
Depreciation	115,079	52,501
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Receivable from Clearing Organizations	51,393,160	(18,941,730)
Increase in Securities Owned	(28,983,789)	(15,225,990)
(Increase) Decrease in Prepaid Expenses	6,806	(41,794)
Increase (Decrease) in Accounts Payable, Accrued Expenses, Payable to Clearing Organizations, and Securities Sold, Not Yet Purchased	(22,576,103)	42,370,244
Net Cash Provided by Operating Activities	<u>1,324,382</u>	<u>9,322,916</u>
<u>Investing Activities</u>		
Acquisition of Property and Equipment	(91,462)	(89,867)
Preferred Stock in First Options Corp. of Chicago, Inc. - Sold		10,000
Loans Receivable, Net	200,687	(886,129)
Chicago Mercantile Exchange Deposit	(5,952)	(505,061)
Insors Integrated Communications, Inc. Warrants		(2,000)
Exchange Memberships Acquired	(333,600)	(1,887,805)
ABN AMRO Sage Corporation Preferred Stock	(50,000)	
Net Cash (Used) by Investing Activities	<u>(280,327)</u>	<u>(3,360,862)</u>
<u>Financing Activities</u>		
Proprietor's Contributions	333,600	1,203,662
Proprietor's Distributions	(1,444,770)	(7,002,060)
Net Cash (Used) by Financing Activities	<u>(1,111,170)</u>	<u>(5,798,398)</u>
 Increase (Decrease) in Cash and Cash Equivalents (Note 2)	 (67,115)	 163,656
Cash and Cash Equivalents - Beginning of Year	<u>185,231</u>	<u>21,575</u>
Cash and Cash Equivalents - End of Year	<u>\$ 118,116</u>	<u>\$ 185,231</u>

The accompanying notes to the financial statements are an integral part of this statement.

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 1 **Company's Activities**

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a non-clearing member firm of The Chicago Mercantile Exchange, The Chicago Board of Trade, The Chicago Board Options Exchange, and Eurex. The Company is a single member Limited Liability Company (LLC). The Company is primarily engaged in the business of options market-making and other trading and arbitrage activities for its proprietary accounts.

Note 2 **Summary of Significant Accounting Policies**

Revenue and Cost Recognition

The books of the Company are maintained on an accrual basis for financial statement as well as tax return purposes.

Securities Transactions

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all futures transactions entered into for the account and risk of the Company are recorded on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. Substantially all of the Company's securities are readily marketable.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. However, the Company classifies its Receivables from Clearing Organizations separately although these accounts are considered the equivalent of cash. Although many of the Company's options contracts expire (mature) in three months or less, the Company has classified these securities separately as appropriate.

Property and Equipment

Property and equipment are stated at cost. Depreciation is taken on both accelerated and straight-line methods at rates sufficient to amortize the property and equipment over their estimated useful lives. Principal rates of depreciation are:

Office Furniture and Equipment	Five to Seven Years
--------------------------------	---------------------

Repairs and maintenance are charged against income; additions and major improvements are capitalized and depreciated.

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 2 **Summary of Significant Accounting Policies (Continued)**

Income Taxes

The Company is a single member limited liability company (LLC) and as such the income taxes due on the income reportable by the Company are reportable in the tax return of its single member.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange, while the income statement accounts are translated at average rates of exchange for the year. Gains or losses resulting from foreign currency transactions are included in net income.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform with current year presentation.

Note 3 **Fair Values**

The carrying amounts for cash, accounts receivable and accounts payable approximate fair value due to the short period of time to maturity.

Note 4 **Receivable / Payable with Clearing Organizations**

The Company clears certain of its transactions through other broker-dealers and exchange approved general clearing firms on a fully disclosed basis. The amount payable to the clearing firms relates to the aforementioned transactions and is secured by the equity in the accounts held with the clearing firms.

Note 5 **Securities Owned and Securities Sold, Not Yet Purchased**

Marketable securities owned and marketable securities sold, not yet purchased, consist of trading and investment securities at market values as follows:

	<u>Assets</u>	<u>Liabilities</u>
Options and Stocks	\$ 124,040,442	\$ 114,291,049

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 6 **Property and Equipment**

	<u>2003</u>	<u>2002</u>
<u>Assets</u>		
Office Furniture and Equipment	\$ 240,720	\$ 149,258
<u>Accumulated Depreciation and Amortization</u>		
Office Furniture and Equipment	(202,944)	(87,865)
<u>Net Property and Equipment</u>	<u>\$ 37,776</u>	<u>\$ 61,393</u>

Note 7 **Common and Preferred Stock**

The Company acquired 200,000 warrants (\$2,000) of Insors Integrated Communications, Inc., Class B non-voting common capital stock in connection with its financing agreement with the company. The Company acquired one share (\$50,000) of ABN AMRO Sage Corporation preferred stock, par value \$1 per share.

Note 8 **Loans Receivable**

	<u>2003</u>	<u>2002</u>
The Company made a secured term loan in the amount of \$318,750 on June 20, 2002. The loan is scheduled to be repaid in 60 monthly payments of \$5,312 principal plus interest. The loan has a 5% fixed interest rate. The loan is secured by a Chicago Mercantile Exchange B-2 (IMM) membership. The loan matures on August 1, 2007. Also, the security for this loan has been assigned to the Company for its clearing firm requirements at the CME.	\$ 231,077	\$ 295,118
The Company made a secured term loan. The loan operates as a line of credit and is scheduled to be repaid in full on October 4, 2007. The loan has a 5% fixed interest rate. The loan is secured by 17,999 "A shares" in CME Holdings and a related Class B-1 (CME) share. The loan matures on October 4, 2007. Also, the security for this loan has been assigned to the Company for its clearing firm requirements at the CME.	558,910	350,000
The Company made a mortgage loan in the amount of \$165,332.00 on June 20, 2001. The loan was scheduled to be repaid in 360 monthly payments of \$1,018 principal and interest. The loan had a 6.25% fixed interest rate. The loan was secured by a mortgage on real estate located in Chicago, Illinois. The loan was to have matured on August 1, 2031. The mortgage loan was received in full on March 19, 2003.	- 0 -	162,551

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 8 **Loans Receivable (Continued)**

	<u>2003</u>	<u>2002</u>
The Company made a secured revolving line of credit agreement in the amount of \$500,000 on November 5, 2002 to a private company. The loan matures on November 5, 2004. The loan has a 9% fixed interest rate. The loan is secured by inventory, accounts receivable and other property described in the security agreements. The receivable is payable in full on November 4, 2004. The loan will also become due if the borrower achieves certain operating objectives before the stated maturity date.		
	<u>59,995</u>	<u>243,000</u>
	<u>\$ 849,982</u>	<u>\$ 1,050,669</u>

Note 9 **Exchange Memberships and Investments**

The Company reports on its balance sheet memberships and investments in the Chicago Mercantile Exchange and the Chicago Board of Trade as summarized below:

Chicago Mercantile Exchange Holdings, Inc. (at Fair Value)	4,292,199
Chicago Board of Trade (at Cost)	<u>333,600</u>
Total Exchange Memberships and Investments	4,625,799

Chicago Mercantile Exchange

The fair value and cost basis of the Chicago Mercantile Exchange ("CME") Holdings, Inc. securities and underlying membership interests of the CME owned by the Company are as follows:

**Total Investment in A and B Shares
of CME Holdings**

	<u>Fair Value</u>	<u>Cost</u>
	<u>\$ 4,292,199</u>	<u>\$ 1,929,455</u>

Fair market values were determined from the Chicago Mercantile Exchange restricted bundled market prices based upon December 31, 2003 bid price and from the New York Stock Exchange for the unrestricted shares based upon the December 31, 2003 closing price. The above are recorded at fair market value. The Company's investment in CME Holdings, Inc. is comprised of the following components:

Investment in the "A shares" of CME Holdings

Restricted	24,045
Unrestricted	<u>25,240</u>
Total A Shares	<u>49,285</u>

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 9

Exchange Memberships and Investments (Continued)

Chicago Mercantile Exchange (Continued)

**Investment in "B Shares" of CME Holdings
(and includes the floor trading rights at the CME)**

B-1	1
B-2	1
B-3	1
B-4	<u>1</u>
Total B Shares	<u><u>4</u></u>

CME "Inactive" Clearing Membership

All of the Shares in CME Holdings, Inc (except for 1,190 A Shares) have been assigned to the CME for clearing purposes. The Company operates as an "inactive" clearing member firm at the CME.

CME Holdings Class A Share Restrictions

The trading restrictions for selling on the NYSE to the public on the Class A Shares will be lifted as follows:

- 25% of the Class A Shares (i.e., Class A-1) become unrestricted on June 4, 2004.
- 25% of the Class A Shares (i.e., Class A-2) become unrestricted 360 days after the completion of the IPO (transferable on December 7, 2003).
- The remaining 50% of the Class A Shares (i.e., Class A-3 and Class A-4) become unrestricted 540 days after the completion of the IPO (transferable on June 4, 2004).

However, Class A Shares which are bundled with memberships and are assigned for clearing membership are 100% restricted until Class A Shares are freely transferable (all trading restrictions are lifted) on June 4, 2004.

CME Holdings Class B Share Restrictions

Class B Shares in CME Holdings cannot be sold or transferred separately from the sale of the associated membership (CME, IMM, IOM, or GEM) in the Exchange. That is, Class B Shares must be sold or transferred with the associated CME, IMM, IOM, or GEM membership. Further, no membership in the Exchange may be sold unless the purchaser also acquires the associated Class B Share. Class B Shares and the associated membership may, however, be sold separately from Class A Shares at any time unless the shares are assigned for clearing purposes.

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 9 **Exchange Memberships and Investments (Continued)**

Chicago Board of Trade (CBOT)

	<u>Fair Value</u>	<u>Cost</u>
Full Member (Professional Firm)	\$ 543,518	\$ 333,600

The exchange membership in CBOT is recorded at cost, or if temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment.

Note 10 **Related Parties**

The Company shares its office, facilities, and support services and associated costs among related companies.

Note 11 **Lease Obligations**

The Company entered into a lease for the space occupied in the Chicago Board of Trade Building (Suite 2020) on February 6, 2002. The lease is for a term beginning March 1, 2002 through May 31, 2006. The future payments are as follows:

	<u>Annual</u>	<u>Monthly</u>
January 1, 2004 – May 31, 2006	\$ 140,771	\$ 11,731

In addition to the above base rental, the Company will be responsible for its proportionate share of escalation allocations, real estate taxes, and operating expenses. The Company also subleases space to its affiliated entities, but future payments on those arrangements have not been netted in the amounts reported above.

The Company has entered into various other leases for month-to-month booth space and seat leases on various exchange floors and leases for the rental of equipment.

Note 12 **Profit Sharing Retirement Plan**

The Company has established a 401(k) profit sharing retirement plan effective July 1, 2001. The plan is a defined contribution plan intended to qualify under Section 401(a) of the Internal Revenue Code. The plan covers all full-time employees who have at least three months of service. The Company contributes to the plan on an elective basis but generally contributes at least 3% of each participant's annual salary. For the plan years 2003 and 2002, the Company contributed \$87,045 and \$161,018, respectively.

Note 13 **Financial Instruments – Accounting Policies**

Derivative financial instruments used for trading purposes, including economic hedges of trading instruments, are carried at market value. Market values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. To date, the Company has not entered into any over-the-counter transactions, requiring any valuations other than quoted market prices.

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 13 **Financial Instruments – Accounting Policies (Continued)**

Derivatives used include futures and options contracts. Unrealized gains or losses on these derivative contracts are recognized currently in the statement of income as trading revenues. The Company does not apply hedge accounting as defined in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as all financial instruments, except for marketable debt and equity securities classified as available-for-sale, are marked to market with changes in fair values reflected in earnings. Therefore, the disclosure required in paragraphs 44 and 45 of the Statement are generally not applicable with respect to these financial instruments.

The Company's CME memberships have been classified as available-for-sale. Securities classified as available-for-sale are carried in the financial statements at fair value. Realized gains and losses, determined using the First-In, First-Out (FIFO) method, are included in earnings; unrealized holding gains and losses are reported in other comprehensive income.

Fair values of options contracts are recorded in Securities Owned or Securities Sold, Not Yet Purchased as appropriate. Open, net liquidating, equity in futures transactions is recorded as Receivables from and Payables to Clearing Organizations in the balance sheet.

Premiums for written and purchased option contracts are reported on a gross basis in the balance sheet at market value.

Note 14 **Financial Instruments with Off-Balance-Sheet Risk**

The Company enters into various transactions involving derivatives and other off-balance-sheet financial instruments. These financial instruments include futures contracts denominated in United States dollars and foreign currencies, exchange-traded options, and delayed deliveries. These derivative financial instruments are used to conduct trading activities and manage portfolio risks and are subject to varying degrees of market risk.

As a writer of options, the Company receives a premium in exchange for giving the counterparty the right to buy or sell the futures contract or underlying security at a future date at a contracted price. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk.

Futures contracts and options on futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

Quiet Light Securities, LLC
Notes to Financial Statements
December 31, 2003 and 2002

Note 15 **Derivative Financial Instruments**

All of the Company's transactions with off-balance-sheet risk are short-term in duration. The Company enters into exchange traded futures transactions as a part of its regular options market-making risk management operations. Futures transactions are generally executed to reduce risk in the Company's options positions. The Company also enters into futures transactions as a part of its inter-market arbitrage trading activities. The risk controls over these operations ensure that the net, inter-market futures positions are ("flat") price neutral overnight. All of these futures contracts relate to various Chicago Mercantile Exchange and Eurex traded products. As of December 31, 2003 and 2002, the Company reported \$22.4 million and \$270.5 million of notional value in long futures contracts and \$622.2 million and \$1.364 billion in short futures contracts, respectively.

Substantially all of the Company's securities are options contracts which expire within one year. Options contracts are classified on the balance sheet as Securities Owned (Assets) and Securities Sold, Not Yet Purchased, at Market Value (Liabilities).

Note 16 **Concentrations of Risk**

The Company is engaged in various trading activities exclusively through regulated exchanges. The risk of default depends on the creditworthiness of the exchange and its clearing firms. The Company may hold significant amounts of money in various banks in excess of the amount covered under FDIC insurance.

Note 17 **Other Comprehensive Income**

The components of other comprehensive income are as follows:

	<u>2003</u>	<u>2002</u>
Unrealized Gains on Chicago Mercantile Exchange		
Membership Investments During the Year	\$ 1,554,049	\$ 808,695
Total Other Comprehensive Income	<u>\$ 1,554,049</u>	<u>\$ 808,695</u>

Accumulated Other Comprehensive Income presented in the accompanying balance sheets consists of the accumulated net unrealized gains on assets classified as available-for-sale investments, interpreted under Financial Accounting Standards Board No. 115.

Note 18 **Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer, the greater of:

1. Minimum dollar net capital requirement (\$100,000), or
2. 6 2/3% of aggregate indebtedness or 2% of aggregate debts if alternative method is used.

At December 31, 2003, the Company had net capital of \$14,817,832, which was \$14,717,832 in excess of its required net capital of \$100,000.

Schedule A

Quiet Light Securities, LLC
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Total Member's Capital	\$ 20,527,882	\$ 18,715,775
Unallowable Assets	(5,607,057)	(3,859,276)
Commodity Futures Contracts Proprietary Capital Charges	(86,262)	(220,296)
Other Deductions	(11,475)	(12,165)
Haircuts Required	<u>(5,256)</u>	<u>(19,966)</u>
Net Capital	14,817,832	14,604,072
Minimum Net Capital Requirement	<u>100,000</u>	<u>100,000</u>
Excess Net Capital	<u><u>\$ 14,717,832</u></u>	<u><u>\$ 14,504,072</u></u>

Note: The above information on this schedule is in agreement, in all material respects, with the unaudited FOCUS Report, Part II, filed by Quiet Light Securities, LLC as of December 31, 2003.

The accompanying notes to the financial statements are an integral part of this statement.